

**MINUTES  
KANSAS PUBLIC EMPLOYEES RETIREMENT SYSTEM  
BOARD OF TRUSTEES  
EDUCATIONAL AND PLANNING MEETING**

**October 8, 2020**

The meeting was called to order by Alan Conroy, Executive Director, at 10:10 a.m. in the KPERS Board Room, 611 S Kansas Avenue, Suite 100, Topeka, Kansas.

Board Members Present:

- Kelly Arnold, Chairman
- Suresh Ramamurthi, Vice Chairman (via telephone)
- Ernie Claudel
- Emily Hill (via telephone)
- Ron Johnson
- Jake LaTurner (via telephone)
- Brad Stratton
- Ryan Trader
- James Zakoura

**KPERS 101 – A Basic Overview**

Alan Conroy, Executive Director, welcomed guests; Jeff Arpin, Division of the Budget, Eileen Ma, Revisor of Statutes Office, David Wiese, Revisor of Statutes Office, Melissa Renick, Legislative Research Department, who attended virtually, and all other participants. Mr. Conroy provided the summary of the meeting's topics and discussed the goals of the KPERS 101 session.

**Basics of KPERS Retirement Benefits**

Alan Conroy, Executive Director, introduced Mary Beth Green, Chief Benefits Officer. Ms. Green provided an overview of the basics of KPERS Retirement Benefits. As plan sponsor, the Kansas Legislature establishes the benefits and plan provisions. KPERS has three separate defined benefit plans including:

- Kansas Public Employees Retirement System (KPERS) including KPERS 1, KPERS 2 and KPERS 3;
- Kansas Police and Firemen's Retirement System (KP&F) including Tier I and Tier II; and
- Kansas Retirement System for Judges.

Ms. Green stated that all KPERS members receive guaranteed, lifetime benefit payments upon retirement. Ms. Green described how the defined benefit plans work, and gave calculation examples for KPERS 1 & 2, KP&F, and Judges. Ms. Green noted there would be a separate presentation on KPERS 3 later on in the meeting. Ms. Green responded to questions.

## **Investment Basics for Trustees**

Alan Conroy, Executive Director, recognized Allan Emkin, Managing Principal, Meketa Investment Group. Mr. Emkin provided a comprehensive overview of relevant investment issues for Board members. He discussed the investment policy, asset liability study process, role of assets, asset allocation targets, portfolio rebalancing, performance measurement, and investment style - active vs. passive, investment timeframes, and risk metrics, including – standard deviation, active risk measures, and other risk measures. Mr. Emkin responded to questions.

## **Actuarial Basics and Overview for Trustees**

Alan Conroy, Executive Director, recognized Pat Beckham, Principal Consulting Actuary, Cavanaugh Macdonald. Ms. Beckham reviewed the actuarial funding for defined benefit plans, benefits of advance funding, actuarial valuation process, concept of present value, illustration of actuarial math for funding a defined benefit plan, definition of actuarial liability, funding a defined benefit plan with level dollar contributions, contribution as percent of payroll, contributions level dollar vs. level percent of pay, actuarial liability over time, actuarial funding of a defined benefit plan, applying the funding methodology to KPERS state/school, and actuarial contribution rate. Ms. Beckham responded to questions.

Alan Conroy, Executive Director, adjourned the meeting for a lunch break at 12:18 p.m.

Lunch was made available to members of the Board of Trustees and participants.

## **Welcome and Review of Meeting Goals**

Chairman Kelly Arnold resumed the Educational and Planning meeting at 1:05 p.m. Chairman Arnold welcomed all participants and reviewed the goals of the session.

## **Building Better Communications for Members**

Chairman Arnold recognized Kristen Basso, Communications Officer. Ms. Basso provided an overview of building better communications by using the measuring assessment from Segal Benz. Ms. Basso discussed the 10 keys to successful communication. The foundation includes strategy, brand, and website; marketing includes feedback, simplicity, year-round, targeted, and employee experience; and resources includes budget and partners. Ms. Basso shared the goals to use the modernization roadmap for long-term planning and to consider repeating the Segal Benz assessment in two years. Ms. Basso responded to questions.

## **KPERS Strategic Plan Fiscal Years 2021 - 2025**

Chairman Arnold recognized Jarod Waltner, Planning and Research Officer. Mr. Waltner presented an overview of the KPERS Strategic Plan for Fiscal Years 2021 - 2025. Mr. Waltner provided information on the strategic initiatives including dedicated fiduciary, core values, strategic goals, sound funding, prudent investments, quality service, reliable and secure data, and talent management. Mr. Walter responded to questions.

## **Recent KPERS Internal Audit Activities**

Chairman Arnold recognized Janette Martin, Internal Auditor. Ms. Martin presented an overview of Internal Auditing. Ms. Martin discussed the responsibilities of the Internal Auditor to provide independent, objective assurance to the Board of Trustees, Audit Committee, and management. Internal Auditors ensure that KPERS assets are safeguarded, operating efficiency is enhanced, and compliance is maintained within the laws, regulations, policies, and procedures. The Audit Committee's purpose is to assist the Board of Trustees in fulfilling its fiduciary responsibilities to the Retirement System's reporting practices. Ms. Martin discussed the Internal Audit activities, which included annual internal audit plan development, annual risk self-assessment and fraud vulnerability assessment, on-going internal monitoring schedule, annual follow-up of key audit findings, governmental accounting standards board (GASB) 68 audit of employer census data, IRS Form 1099-R reconciliation monthly and year end, continuous auditing monthly, and continuing professional development education. Ms. Martin responded to questions.

## **CEM Benchmarking Analysis of KPERS Operations**

Chairman Arnold recognized Michael Reid, Vice President, Customer Experience Management (CEM) Benchmarking. Mr. Reid presented an overview of the KPERS Pension Administration Benchmarking Report - FY 2019. Mr. Reid described the benchmarking service measured cost and service in relation to KPERS peers. He also discussed insights into current research on pension administration best practices and trends. Mr. Reid stated in relation to peers KPERS' operating cost was lower and performance was higher due to consistent efficient methods. Mr. Reid responded to questions.

## **Board of Trustee Fiduciary Duties, Ethics, and the Kansas Open Meetings Act**

Chairman Arnold recognized Laurie McKinnon, General Counsel. Ms. McKinnon presented an overview of Board fiduciary duties, ethics, and explained the Kansas Open Meetings Act. Ms. McKinnon discussed the laws governing the Trustees' responsibilities including general fiduciary principles, fiduciary duties in the Retirement Act, Kansas Governmental Ethics guidelines, the Kansas Open Meetings Act, and the Board Policy Manual. Ms. McKinnon responded to questions.

## **Understanding How KPERS 3 Works**

Chairman Arnold recognized Mary Beth Green, Chief Benefits Officer. Ms. Green provided an overview of the KPERS 3, Cash Balance Plan. Ms. Green reviewed the background, plan design, member and employer contributions, retirement benefits, and keys to KPERS 3. The 2012 Legislature enacted three major changes which included higher employer contributions, higher member contributions, and establishment of KPERS 3 or the cash balance plan which began for new members on January 1, 2015. KPERS 3 cash balance plan is technically a defined benefit plan like KPERS 1 and KPERS 2, but has characteristics of a defined contribution plan similar to a 401(k) or 403(b). The five steps of how KPERS 3 works; includes employee contribution of 6% while earning retirement credits from the employer, interest credit while working, vesting after working five years, and calculating lifetime benefits at retirement.

## **Comparison of KPERS Retirement Replacement Ratios**

Chairman Arnold introduced Jarod Waltner, Planning and Research Officer. Mr. Waltner presented an overview of the comparison of KPERS retirement replacement ratios. The replacement ratios are the percentage of income needed to maintain one's lifestyle in retirement. Mr. Waltner discussed the need to communicate and calculate the income replacement ratio to convince members of the importance of personal savings; as KPERS retirement and social security are not enough. Mr. Waltner discussed financial planning and benefit comparisons. Mr. Waltner stated that replacement ratios are a useful measure for retirement planning and readiness. Based on actuarial calculations, KPERS 3 members need to plan on individual savings to reach the industry recommended retirement income replacement ratio of 70–90 percent of final gross income at retirement. KPERS uses replacement ratios as one tool to help members make sound retirement decisions and to stress the importance of individual savings. KPERS is committed to assisting all members to prepare for retirement.

## **KPERS 457 Today and into the Future**

Chairman Arnold recognized Arlen Zentner, Deferred Compensation Plan Officer. Mr. Zentner stated that he, along with Scott Taylor, State Director, Empower Retirement, and Jake O'Shaughnessy, Managing Director, SageView, would review KPERS 457 today and into the future.

Mr. Zentner introduced Scott Taylor, State Director, Empower Retirement. Mr. Taylor presented the KPERS 457 Plan: Serving Kansas Employees Now. He discussed leading and innovating in a global pandemic, and engaging employees with innovative and intuitive resources. Mr. Taylor responded to questions.

Mr. Zentner introduced Jake O'Shaughnessy, Managing Director, SageView. Mr. O'Shaughnessy reviewed KPERS 457's pandemic preparedness and client support. The SageView team are taking steps to support clients by enhanced technology, increased SageView's 411 staff to support participant calls, webinars to plan sponsor and participants, and developed online plan sponsor resource center. Mr. O'Shaughnessy responded to questions.

Mr. Zentner provided the KPERS 457 Dashboard presentation. Mr. Zentner discussed the KPERS 457 benefits for employees including retirement plan counselors, retirement specialists, twenty quality investment options, free online investment advice, and a simplified administration for employers through service providers. Mr. Zentner reviewed the KPERS 457 assets, number of participants, local KPERS 457 plans joiners, participant balance and diversification, and the participation summary. Mr. Zentner responded to questions.

Chairman Arnold adjourned the meeting at 5:07 p.m.

## **Dinner at the Blue Moose Restaurant**

The dinner was held at the Blue Moose Restaurant for the Board of Trustees and staff.

**October 9, 2020**

Alan Conroy, Executive Director, opened the meeting at 8:34 a.m.

Chairman Arnold welcomed all participants.

## **CEM Investment Benchmarking Presentation**

Chairman Arnold recognized Mr. Michael Reid, Vice President, CEM Benchmarking. Mr. Reid presented the Investment Cost Effectiveness Analysis, and summary of results for the five-year period ending December 31, 2019. The benchmarking report compares cost and return performance to the 237 funds in CEM's extensive pension database. Mr. Reid stated that the primary focus of CEM's analysis is cost, and the Retirement System's investment cost is lower than expected; due to lower cost implementation style and paying less for similar services than our peers. He said that the Retirement System has made a lot of smart implementation decisions, and that investment returns are also a positive story.

The most valuable comparisons for cost performance are to a custom peer group because size impacts costs. The 5-year net total return was 7.1 percent. This was below the U.S. Public median of 7.5 percent and the peer median of 7.4 percent. The 5-year policy return was 6.8 percent. This was close to the U.S. Public median of 7.0 percent and the peer median of 6.9 percent. The 5-year net value was 0.3 percent. Value was added in the domestic equity, international equity, fixed income, and real estate asset classes. This was close to the U.S. Public median of 0.4 percent and equal to the peer median of 0.3 percent. The investment cost of 43.1 bps was below benchmark cost of 51.2 bps. The fund was low cost because of lower cost implementation style, and paying less than peers for similar services. The costs increased by 4.5 bps, from 38.6 bps in 2015 to 43.1 bps in 2019, primarily due to investing more in private market assets. The increase was partly offset by paying lower fees for public assets. The asset risk of 10.9 percent was close to the U.S. Public median of 10.7 percent. Mr. Reid responded to questions.

## **Private Equity Investment Process Review**

Chairman Arnold recognized Mr. Richard Pugmire, Principal, and Ms. Amy Ridge, both of Mercer Alternatives. Mr. Pugmire and Ms. Amy Ridge reviewed the private equity investment process, which includes Mercer's experience and credentials in alternatives. They discussed the investment process, explained the private equity investment characteristics of each investment recommendation, the research process, sourcing, research views, private equity due diligence, private markets operational reviews, fund ratings, ratings review committee, business management guidance, alignment guidance, strategy guidance, performance guidance, fund rating, and ESG rating. Mercer and KPERs staff work collaboratively throughout the investment process, including the sourcing and screening of potential investments, reviewing preliminary due diligence, and

evaluating a fund for investment. Funds undergo a comprehensive due diligence process with results summarized in a due diligence report. The due diligence report format now includes factor scores and a rating to assist understanding areas of strengths and considerations for each fund. Mr. Pugmire responded to questions.

### **View of the World for Real Estate Investing**

Chairman Arnold recognized Martin Rosenberg, Partner, Townsend Group. Mr. Rosenberg introduced Prashant Tewari, Partner, Townsend Group. Mr. Tewari reviewed the Townsend view of the world for real estate investing. He discussed the economic outlook which includes monetary and fiscal policy aiding the global recovery. The labor markets are challenged but indicating early signs of recovery. Leading indicators support selective slow recovery towards new normal. Mr. Tewari also described the impact of pandemic on real estate investment strategy as technology use increases significantly, accelerating many pre-COVID trends, and the disruption effects of COVID-19 will create real estate risks and opportunities, and the short-term real estate outlook. Mr. Tewari responded to questions.

### **Industry Perspectives: Update on Capital Market Assumptions and Approaches to Risk Management**

Chairman Arnold recognized Mr. Allan Emkin, Managing Principal, Meketa Investment Group. Mr. Emkin reviewed the Industry Perspectives, including setting capital market expectations, building forecasts based on fundamental models, falling fixed income yields, and lower expected returns for all asset classes. Mr. Emkin also discussed the incorporation of environmental social and governance into Meketa's research process for investment management firms. Mr. Emkin responded to questions.

### **Board Discussion on Informational Needs and Self Evaluation**

Chairman Arnold recognized Laurie McKinnon, General Counsel. Ms. McKinnon responded to questions regarding the legality of environmental social, and governance related investing.

Chairman Arnold recognized Alan Conroy, Director. Mr. Conroy responded to questions regarding the timeline of items to consider for legislation.

Chairman Arnold adjourned the meeting at 12:08 p.m.